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**CONDITIONS AND TRENDS
IN LATIN AMERICA**

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 6 December 1955. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, G-2, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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SUBJECT: NIE 80/90-55, "Conditions and Trends in Latin America,"
6 December 1955

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At line 5 of page 2, the first word "posed" should read "pose".

CENTRAL INTELLIGENCE AGENCY
21 December 1955

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CONDITIONS AND TRENDS IN LATIN AMERICA¹

THE PROBLEM

To identify the factors affecting Latin American political and economic stability and to estimate the trends likely to affect Latin American political, economic, and military cooperation with the United States.

CONCLUSIONS

1. The political instability now evident in Latin America results primarily from serious disturbances of the traditional social order by new economic and social forces. This instability is therefore much more fundamental than that which characterized the personal politics of Latin America in the past. (*Paras. 12-19, 32-33*)

2. The postwar trend toward radical and ultranationalistic regimes has been arrested, at least temporarily. Demagogic rulers have been overthrown in Argentina, Brazil, and Guatemala, and would-be demagogues have been restrained in Chile, Colombia, and Ecuador. Over the short run, this trend toward more moderate governments is likely to continue. (*Paras. 27, 54*)

3. The military have not only continued to be predominant but have even further extended, at least temporarily, their influence over Latin American politics. Although this military predominance generally tends to have a stabilizing effect,

we do not believe that, over the long term, the present Latin American military leadership has the capacity or means to solve national problems in an orderly, progressive fashion. (*Paras. 28-29*)

4. The economy of the Latin American region is in transition from dependence upon raw material exports to a greater degree of economic development and diversification. Industrialization is still considered an essential goal, although it has recently slowed down as a result of forced retrenchment and re-evaluation of economic policies. In general, the climate for foreign investment is gradually improving. (*Paras. 20-26, 57*)

5. The over-all strength and effectiveness of Latin America's armed forces are gradually improving. Although military cooperation with the United States is being expanded, the arms standardization program is being adversely affected by the increased trend towards purchase of military materiel from European sources. (*Paras. 35-36, 52-53, 61*)

6. The Communists have no present prospect of gaining control of any Latin American state by electoral means, nor

¹ This estimate relates only to the Latin American republics. European colonies in the area are excluded from consideration.

even of gaining direct participation in national politics equal to that which they formerly enjoyed in Guatemala. However, despite their small numbers, they posed a threat to US security interests in Latin America, largely because of the ease with which a relatively few Communists, operating through various fronts, can exploit the widespread social unrest and existing Yankeephobia. (Paras. 37-41, 43, 55)

7. The USSR and its Satellites have shown a markedly increased interest in Latin America in recent years. This has been reflected in a great increase in Communist-sponsored trips of Latin Americans to Communist countries, an expansion of Soviet Bloc diplomatic representation, and a growing interest in expanding trade, including arms. (Paras. 42, 51)

8. The trend towards moderate government improves the prospects for increased US-Latin American political cooperation, but the Latin American gov-

ernments are likely to continue to take an independent position on matters affecting colonial and underdeveloped areas. There will be continuing pressure on the US to adopt policies which will assist Latin America in its economic development and trade problems. (Paras. 44-51, 59-60)

9. In the long run, as social pressures increase and if economic problems remain unsolved, at least temporary reversion to demagoguery and extreme solutions for meeting national problems is probable. This would in turn subject the inter-American system to new strains and adversely affect political, economic, and military cooperation with the United States. (Paras. 29, 56)

10. In the event of general war, the Latin American armed forces would not be able to defend critical areas and sea routes against serious enemy attack without the direct participation of US forces, although they would be of value in supporting roles. (Paras. 62-64)

DISCUSSION

I. INTRODUCTION

11. The disposition, capacity, and orientation of the Latin American countries with respect to US security interests is conditioned by the many complex factors at work in this area of approximately 170 million people. The social pattern of Latin America includes a mingling of colors and a mixture of social traditions of aboriginal America, Africa, colonial Spain and Portugal, and modern Europe. Politically, the Latin Americans pay homage to democratic and constitutional government, but have not been able to establish and maintain effective political democracy. As a consequence, autocratic regimes have generally prevailed. In terms of economics the area offers the contrast of primitive subsistence agricul-

ture, highly efficient raw material production for export, and such complex industrial and commercial institutions as are to be found in more mature societies which Latin Americans seek to emulate. They are also desirous of playing a larger role in international councils, but lack the economic and military strength, the political experience, and the breadth of interest to do so with great effectiveness.

II. BASIC SOCIAL TRENDS

12. In most Latin American countries the old order of society was dominated by landed gentry in alliance with the Church and the Army. There was also a small professional and commercial middle class, but it identified itself with the propertied group. The mass of the population was dependent, inarticulate, and

politically impotent. Within the ruling group politics was highly personal and unpredictable, but the social order itself was stable.

13. In recent years, however, the traditional social order has been seriously disturbed by the accelerated pace of Latin American economic change and by world-wide ideological influences. Although about 60 percent of the population is still engaged in agriculture, the development of mining, manufacturing, and service industries in Latin America during the past three decades has considerably increased the importance of nonagricultural labor and the urban middle class.

14. In many countries, especially the more important ones (e. g., Argentina, Brazil, Chile, and Mexico), the preponderance of political power is shifting to politicians whose strength is derived primarily from their influence over the urban population. They come primarily from the rising middle class and include intellectuals, officials of the government and state-controlled enterprises, military, professional and business men, and trade union leaders. The most characteristic attitudes of this new type of political leader, who has no strong ties with the traditional order, are strong tendencies towards nationalism, statism, and social reform. This development, still incomplete and ill-defined, has given rise to political instability more fundamental than that which characterized the personal politics of the past.

15. Urban labor has shown increasing signs of restlessness and class consciousness. Hard hit by the continuing inflation, it has engaged in serious strike action and has increasingly applied pressure upon governments. It has greater political potential than any other group. Even where the demagogic evocation of labor as a political force has been at least temporarily checked by the overthrow of leaders like Peron in Argentina, Vargas in Brazil, and Arbenz in Guatemala, the new administrations must approach urban labor with caution and respect. Rural labor, however, shows few signs of shifting from its traditional character as an inarticulate mass under the control of the great landowners.

16. The rising middle class is as yet less cohesive than labor as a political force. Although critical of the traditional order and generally advocating social, economic, and political reform, middle class elements hold divergent views with regard to specific national issues and have not developed a capacity for united political action. Their most common characteristic is a strong sense of nationalism. Recently, however, in reaction to labor extremism, middle class elements have tended to unite in support of political moderation.

17. Older social elements and institutions have adapted themselves with varying degrees of success to the rise of essentially urban political leadership. Intellectuals, who formerly had their spiritual homes in European capitals and were attached to the oligarchy by ties of family and patronage, are now predominantly both socialistic and nationalistic. In the more advanced states, the military have abandoned their former role as guarantors of the traditional social order. At the same time they are alarmed by labor extremism and its exploitation by demagogic politicians, and tend toward a middle class point of view. Still capable of decisive intervention in political affairs, they exercise that capability on occasion, but with a new restraint and generally for the preservation and maintenance of the fundamental constitutional order. The various national Catholic hierarchies have for the most part striven to preserve the traditional social order, but in a few countries Catholic laymen have organized Christian socialist parties in an effort to counter anticlerical and agnostic tendencies of the urban population and to divert the masses from a more radical course. Only the landed interests have in general made no effort to accommodate themselves to the new situation.

18. Relations between the masses of the people and the new leadership are much less well-defined and less stable than were those between the people and the landed aristocracy. Personal politics and "feudal" loyalties are being modified and in some cases superseded by the impersonal relations of Capital, Labor,

and Government. The aspirations of urban populations, especially those of organized labor, have often been exploited by ambitious politicians and directed toward objectives incompatible with the development of stable and moderate government. Though this latter trend has been modified during the past two years, the masses in general remain illiterate, poverty stricken, politically inexperienced, and highly susceptible to demagogic appeals.

19. The degree of disruption produced by the social forces mentioned above varies from country to country. Those with superior physical or human resources, like Argentina, Brazil, Chile, Mexico, and Uruguay, have experienced the most profound social, economic, and political change. But even immature societies, such as those of Bolivia and Guatemala, have responded to the stimulation of reform-minded leadership. In most of Central America, the Caribbean (except Cuba), the North and West Coasts of South America (barring Chile), and Paraguay, the old social order still persists.

III. BASIC ECONOMIC TRENDS²

20. Latin America has traditionally served as a supplier of raw materials and foodstuffs to the highly industrialized countries of North America and Europe, and has depended on those countries for nearly all of its requirements of manufactured products. The Latin Americans, however, are no longer willing to accept what they describe as a colonial economic status. This attitude is accentuated by their experience during and after two World Wars, when, despite large income from exports of raw materials, they were unable to buy the manufactured goods they wanted. They seek a greater degree of economic independence and stability through such measures as protective tariffs, exchange restrictions, import controls, and government-sponsored industrialization. They see industrialization as the chief means, not only to lessen the region's

² For brief descriptions of the economic situations in selected countries (Argentina, Bolivia, Brazil, Chile, Guatemala, Mexico, Venezuela) see the appendices.

vulnerability to world trade cycles, but also to raise income levels and to expand the domestic market.

21. Rapid industrialization was pursued by all the major Latin American countries during the immediate postwar years. This policy was accompanied in many countries by elaborate social and labor programs designed to achieve a redistribution of income and by adoption of inflationary wage and credit policies designed to ease the burden of capital formation. By drawing upon accumulated international reserves, by utilizing underemployed agricultural labor in industry and by capitalizing on generally favorable terms of trade, Latin America between 1945 and 1951 was able to expand its gross national product by an annual per capita average of 4.2 percent and to maintain annual investment at an average of 16 percent of GNP. Although the drive for industrialization achieved a significant degree of economic diversification in Argentina, Brazil, Chile, and Mexico, throughout the area too much public investment was placed in ambitious projects requiring long-term amortization in terms of added output of goods and services or was wasted on unproductive ventures. Moreover, economic progress was unevenly distributed in favor of urban industry and to the neglect of basic agricultural output.

22. After 1951, as world prices declined following the Korean War boom, virtually static export volumes proved inadequate to finance the import demands generated by development programs. At the same time lagging productivity caused an increase in prices which severely limited effective demand. Having dissipated the accumulated international reserves and the terms of trade having become less favorable, Latin American governments generally were forced to retrench on investment and to adopt more restrictive wage and credit policies. In the period 1951-1954 there was a general slowing of the rate of growth of per capita GNP to a mere .6 percent annually. During this period only the coffee-producing countries and Venezuela, which enjoyed favorable terms of trade, maintained more satisfactory rates of development.

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23. Generally, Latin American governments have attempted to maintain existing living standards by reducing the emphasis on investment. Agricultural production for domestic consumption rather than for export has been encouraged, restrictions on imports of consumer goods have been relaxed, and emphasis in imports has been on the raw materials and equipment needed to maintain employment in existing manufacture rather than to increase manufacturing capacity. This easing of consumption levels at the expense of new investment has delayed much-needed investment in agriculture (the output of which is lagging behind population growth), has prevented adequate maintenance as well as overdue expansion of basic services (especially transportation and power), and has aggravated balance of payments problems (particularly in Argentina, Brazil, and Chile). The unwillingness or inability of some governments to restrict credit or to curb wage increases has intensified inflation.

24. In facing the problem of renewing economic momentum, many of the Latin American governments, though continuing to defend industrialization as an essential goal, have recently indicated a growing awareness of the necessity of balanced development, particularly as between agriculture and industry. There are also signs of growing recognition that export earnings constitute the most readily available means of stimulating domestic capital formation. However, the area's ability to reap more benefit from expanded exports is limited by currently declining terms of trade for agricultural products and by Latin America's increasingly marginal position in world markets as a supplier of both agricultural products and minerals.

25. There are some indications that the force of economic nationalism is becoming more moderate. The tendency toward the expropriation and nationalization of foreign owned industrial enterprises has recently been arrested. Bolivia's losing struggle to maintain the output of its tin mines and Argentina's failure to cope with the financial burden of nationalized industries and services have ap-

parently dampened the enthusiasm of other Latin American governments for assuming similar responsibilities. In Bolivia, Chile, Peru, and Guatemala, there appears to be a growing receptivity to foreign investment in petroleum and mining. There is little indication, however, that Brazil and Argentina are ready to relax their prohibitions against foreign development of their petroleum resources. In general, individual governments determine the area in which such foreign capital as can be attracted will be permitted to operate. Basic services, such as transportation and power development, are increasingly viewed as the special province and responsibility of the state.

26. Throughout the area, the state continues to play a major role in the economic development. This stems largely from the fact that private funds are not readily available to finance long-term development enterprises. Though perhaps less committed than formerly to the programs of a welfare state, the central governments still bear the major responsibility for improving the economic status of a steadily increasing population. Their ability to discharge this responsibility is currently threatened by present burdens of debt, and in some cases, by obligations to amortize sizable foreign governmental loans. Major relief for this situation is likely to be sought in long-term, low interest loans from the US and international lending agencies.

IV. BASIC POLITICAL TRENDS

27. The most important political development of the past few years has been the arrest of a postwar trend toward radical and ultra-nationalistic regimes. Demagogic rulers have been overthrown in Argentina, Brazil, and Guatemala; would-be demagogues have been restrained in Chile, Colombia, and Ecuador; the Bolivian government has become less radical. Extremist radical leadership has generally been discredited, at least for the time being, largely because its solutions for basic national economic and social problems have failed to satisfy the popular demand for more material progress. Political repression and

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deliberate intensification of social cleavages by such leadership provoked the military to intervene.

28. The military have not only continued to be predominant but have even further extended, at least temporarily, their influence over Latin American politics. In Argentina and Brazil, the new middle class military leadership has come to display a concern for national responsibility which has tended to overshadow the more traditional emphasis upon caste, political power for its own sake, and personal aggrandizement. Though confirmed nationalists, these military leaders are inclined towards moderate and constitutional solutions of national problems and issues, and they share the growing resistance of the middle and upper classes to the emergence of demagogues and radical labor movements. Only Mexico, Chile, and Uruguay have apolitical military establishments. Elsewhere in Latin America (except in Bolivia, Ecuador, and parts of Central America) the more traditional type of military dictatorship with a generally conservative orientation is the rule. Though this precludes, in the short-run, leftist regimes based on mass support, such leadership's repressive tendencies in the face of mounting pressure for political change renders more likely the eventual outbreak of revolutionary violence.

29. Political control by the military is at best a holding operation. Because of insufficient economic progress, the continued absence of a united and dominant middle class, and the continued presence of an economically depressed labor mass without responsible leadership, the invitation to demagogic and extremist governments remains. In the more advanced countries, such as Argentina and Brazil, the influence of a more enlightened armed forces leadership reflects the bankruptcy of civilian leadership more than it does the rise of an effective new instrument for the solution of pressing social problems. There is little evidence that military leaders are eager to cope with the problems of running the complex modern state. Although in the less advanced countries, generally, continuation of

strong man military rule is likely, the highly personal and narrow character of these governments limits their capabilities, over the long run, for coping with the growing complexity of governing and meeting the demands for social and economic change. In sum, we do not believe that over the long term the present Latin American military leadership has the capacity or means to solve national problems in an orderly, progressive fashion.

30. Of the countries where the military remain aloof from politics, Mexico and Uruguay have achieved a relatively high level of social and political stability. In Chile, however, moderate and democratic traditions hang in a precarious balance against pressures for social and economic change.

31. US assistance and guidance helped bring about a successful political reorientation in Bolivia and Guatemala. Both countries were moving in an extreme left-wing direction but they are presently ruled by moderate governments which are seeking to build a popular base which will sustain the present course. This kind of relationship with the US would be generally resisted by the larger and relatively more mature countries even were the US willing and able to make the investment required.

32. There is little indication of a trend toward increasing political stability in Latin America. In the past few years, governments have been overthrown by force in Argentina, Brazil, Guatemala, Colombia, and Paraguay. The labor unrest in Chile, the insecurity of the Ecuadoran regime, recurring revolutionary rumors in Cuba, the assassination of Panamanian President Remon, and the generally unsettled political conditions in Colombia and throughout Central America all attest to the general instability of the area. Only regimes in Mexico, Peru, Venezuela, Uruguay, and the Dominican Republic appear to have a firm grip on political processes and sources of power.

33. Within the Latin American area, intervention in the affairs of other nations, boundary disputes, the subversive activities of Communists and exiles, and personal feuds between heads of states, have continued to contribute

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to both domestic and international instability. Although the Argentine interference in the affairs of other nations has declined, and although the Communists have lost their Guatemalan base for subversive activity throughout Central America, the peace of Latin America has recently been disturbed by a revolutionary invasion of Costa Rica from Nicaragua (probably aided by Venezuela) and by new flare-ups in the longstanding Peru-Ecuador boundary dispute.

V. BASIC MILITARY TRENDS

34. The primary function of Latin American armed forces has always been the maintenance of internal order. Although international wars have occurred within the area, they are outside of normal expectations. Latin American military establishments have not been designed to cope with invasion by a first-class military power without the support and assistance of some other major power.

35. The Latin American governments have agreed to a coordinated approach to the general problem of Hemisphere defense, with the assignment of tasks to particular states under an over-all plan and the preparation of their forces to perform the tasks assigned. Such planning is proceeding through the agency of the Inter-American Defense Board. At the same time various Latin American forces are being modernized and developed under US influence. This influence is exerted through US military missions, the training of Latin Americans at service schools in the Canal Zone and the United States, various bilateral mutual security agreements, and the provision of calculated quantities of various types of US military equipment.

36. The over-all strength of Latin American armed forces has been gradually improving. Total forces in military and militarized police organizations rose from 762,000 to 823,000 during the past three years. In this same period, military capabilities improved, partly as a result of US assistance in organizing, equipping, and training tactical units under the Mutual Defense Assistance Program, and partly as a result of increased military purchases, both

from the US under the reimbursable aid program and independently from European sources. An improvement in air and naval capabilities has also resulted from the purchase of jet planes in the UK and naval vessels in various West European countries. However, the combat effectiveness of Latin American armed forces is still low by US standards. Even in the best circumstances, the Latin Americans would never expect to meet attack by a first-class military power without direct US military support.

VI. COMMUNISM IN LATIN AMERICA

37. Communist Party membership, after reaching a postwar low of 200,000 in 1952, is again on the rise. There is estimated to have been a 25 percent increase in the past three years. This reflects a doubling of the Brazilian Communist Party membership to about 120,000 and some increase in Chile and Argentina, which has more than cancelled out losses in other countries. The Communist Party, now outlawed in 15 of the 20 republics, has no present prospect of gaining control of any Latin American government by electoral means. In Chile, however, the Communist Party has been able to work successfully with labor and civil liberties groups seeking to discredit the present government, and in Brazil it may have contributed the margin of victory to the Kubitschek-Goulart ticket in the presidential elections of October 1955.

38. The Communist threat to US security interests in Latin America is greater than present party membership in the area would suggest, because of the ease with which a relative few Communists operating behind labor, intellectual, and other fronts can exploit the social unrest and Yankeeophobia already existing in the non-Communist population. While the situations in various countries differ, the experience of Guatemala, 1944-1954, provides an example of how a small Communist minority could penetrate a Latin American government and strongly influence its policy.

39. Communist penetration has been notable in the labor movement. In some countries, such as Brazil and Chile, Communists have

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succeeded in gaining key positions in strategic labor unions and in national labor federations. Though Communist influence in labor unions has been somewhat curtailed by government action, such action has also affected and antagonized non-Communist labor leaders. Increasing government restrictions on union activity have thus tended to give Communist and non-Communist labor groups a common sense of persecution and a common cause. Through their influence in labor, the Communists have a capability for interrupting the operations of strategically important industries by means of strikes and sabotage.

40. The Communists have also been successful in penetrating Latin American educational systems, intellectual circles, and those patriotic organizations formed to give expression to a spirit of ultranationalism. In this way they seek to instill prejudice in the rising generation, to intensify socialistic and nationalistic tendencies among the intelligentsia, to assume a patriotic coloration for their own activities, and to give such direction to nationalism as will most effectively hinder Latin American cooperation with the United States. In the Latin American armed forces, however, the influence of Communists and Communist sympathizers is slight. In general, the officer corps constitutes the strongest opposition to Communism in Latin America.

41. Communist strategy is broadly defined by the program of the "national liberation front," which provides an almost infinitely flexible standard of operation. Under this program the Communists concentrate their efforts on social sectors that are active partisans of change. These include manual and white collar workers, writers, artists, teachers, and youth groups. Though the immediate influence of these groups has declined as governments have become more moderate, the Communists continue to cultivate them in accordance with long-term strategy. The Soviet emphasis on "peaceful coexistence" has brought no apparent reduction of attacks on the US by the Communists in Latin America.

42. The USSR and its Satellites have shown a markedly increased interest in Latin Ameri-

ca in recent years. This has been reflected in a great increase in Communist-sponsored trips of Latin Americans to Communist countries, an expansion of Soviet Bloc diplomatic representation, and a growing interest in expanding trade including arms. Argentina, Brazil, Chile, and Uruguay are the countries most vulnerable to the expanded Soviet program of cultural and commercial intercourse.

43. Official anti-Communist action in Latin America has increased, especially in Bolivia and Guatemala. As Communist action in Chile has become bolder and more successful, the authorities have been provoked to stronger measures. Similar action against increasing Communist activity may also be expected in Brazil. Nevertheless, the situation continues fundamentally favorable to Communist operations throughout Latin America, since few countries enjoy social or economic stability, and there is organized Communist strength in all the important countries.

VII. COOPERATION WITH THE UNITED STATES

Political Cooperation

44. The climate for US-Latin American political cooperation has gradually improved over the past few years. The improvement has resulted from the reduction of Latin American fears of being involved in war, the elimination or moderation of the more demagogic governments, and especially the removal of the irritant represented by Peron's essentially anti-US foreign policy.

45. In the United Nations, the US has normally had the support of most Latin American countries on major political issues between the US and the Soviet Bloc. In the Seventh and Eighth Assembly meetings, Peron's Argentina, Communist-oriented Guatemala, and traditionally independent Mexico provided exceptions, but in the Ninth Assembly, the United States received solid and consistent Latin American support, highlighted by rejection of Soviet Bloc's criticisms of US Far Eastern policy. However, on matters pertaining to dependent areas the Latin American republics continued to express their tradition-

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al anticolonialism in all three assemblies. There is a growing tendency on the part of the Latin American states to support the Arab-Asian bloc in economic and colonial matters.

46. During the past two years, the Organization of American States acted against several threats to collective security and stability in the Hemisphere. In response to the Communist threat in Guatemala, the Tenth Inter-American Conference at Caracas, in March 1954 adopted, with only one negative vote (Guatemala) and two abstentions (Argentina and Mexico), a "Declaration of Solidarity . . . against International Communist Intervention." In January 1955, immediate action by the OAS was a decisive factor in frustrating a revolutionary invasion of Costa Rica from Nicaragua. In September 1955, the OAS deferred action on the Ecuador-Peru boundary dispute but stood ready to preserve peace in that area. However, the Latin Americans also used the OAS to demonstrate their opposition to the continued existence of European colonies in the Western Hemisphere.

Economic Cooperation

47. The role of Latin America as a supplier of strategic raw materials particularly in time of war when access to materials in other supply areas may be denied, makes Latin American economic cooperation essential to US and Hemisphere defense. Latin America at present supplies the United States with over 30 strategic mineral, fiber, and chemical products. Its output of copper, petroleum, and zinc forms an essential complement to US and Canadian production. The area is the only Western Hemisphere source of 12 essential materials, including tin, cordage fibers, mica, and quartz crystals, and it is the principal Hemisphere source of antimony and monazite.

48. Latin Americans have tended to place responsibility for their development and welfare squarely upon the United States. They believe that the United States appreciates neither the urgency of their economic problems nor Latin America's importance to the United States, and they resent the failure of the United States to give them the financial

assistance comparable to the amounts the United States has made available to Western Europe.

49. At the Tenth Inter-American Conference in March 1954, the Latin Americans demanded wholesale US commitments on stabilizing export prices, reducing competition from the US agricultural surplus disposal program, lowering US tariffs, elimination of US import quotas, and a US underwriting of public financing of large-scale development. United States refusal to commit itself, however, led to some moderation of Latin America's demands on these points after the Conference of Economic Ministers at Rio de Janeiro in November 1954. On economic issues in the United Nations, the Latin American countries have supported the other underdeveloped areas in attempts to increase the scope of United Nations economic programs, usually in opposition to the United States. In general the Latin American countries in dealings with the US at the conference level have shown increasing sense of identity of interest and a growing solidarity. This consciousness has stimulated a regional approach to both foreign trade and development problems.

50. Latin Americans in general do not oppose the entry of foreign capital for the purpose of exploiting natural resources, but they insist on exercising control over the scope and form of such investment. This insistence stems not only from a militant nationalism, but also from the concern of some leaders for conservation of resources and the desire of all to obtain a maximum *quid pro quo*. In the face of growing realization of the need for foreign capital for industrialization, a number of governments, particularly Bolivia, Guatemala, Chile, and Peru, have sought to revise legislation in order to provide a more attractive climate for foreign investment.

51. Latin America continues to be economically oriented toward the United States with which half its total trade is carried on. There has been a growing interest, however, in increased trade with Western Europe where dollar difficulties have been less of an impediment. This has been particularly evident in

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Argentina, Brazil, Chile, and Uruguay where interest has been stimulated by the comparatively easy credit terms offered by European traders, especially West Germany. Trade with the Soviet Bloc amounts to as much as 5 to 10 percent of total country trade only in the case of Argentina and Uruguay. These and other countries, including Brazil, are paying increasing attention to the possible advantages of disposing of surpluses to the Soviet Bloc despite present Soviet failure to perform fully on commitments to supply desired capital goods. To date, Latin America has cooperated officially with the US in controlling the flow of strategic materials to the Communist area.

Military Cooperation

52. Latin American military cooperation with the US has generally continued to expand over the past few years. All countries have now established their eligibility for reimbursable aid under the Mutual Defense Assistance Act of 1949, and most of them have submitted requests for such aid. Twelve countries³ have now signed and ratified bilateral military assistance agreements with the US making them eligible for grant aid under the Mutual Security Act of 1951. All but two countries (Mexico and the Dominican Republic) have US military missions. There are 15 US Air Force, 14 Army, and 9 Navy missions. Generally the Latin American governments have been well satisfied with the work of these missions, but have not made optimum use of them.

53. Many Latin American military and political leaders have been dissatisfied with the area's low priority in relation to Europe with respect to US military aid. Rivalries and mutual suspicions among Latin American states have also led to complaints about inequitable treatment in the bestowal of US aid. Moreover, arms standardization has been adversely affected by the increased trend toward purchase of military materiel from European sources, especially jet planes from Great Brit-

ain and naval vessels from Western Europe. This has occurred partly because desired US equipment has not been made available or has been slow in delivery, and partly because of the advantageous terms and other inducements offered by European sellers. Continuation of this trend would not only create severe logistic problems in time of war but also undermine the US military mission program.

VIII. PROBABLE FUTURE DEVELOPMENTS

General

54. Over the short run, the recent trend toward moderate governments is likely to continue, although without a corresponding increase in political stability. Labor, now lacking effective political leadership, is unlikely to exercise a dominant radical influence in the orientation of national policy. The middle class sector of the population is likely to retain its influence in Latin American domestic and foreign affairs and will tend to align itself with traditional, conservative groups in the face of labor unrest.

55. At the same time, moderate civilian groups are unlikely to demonstrate the capacity for effective political organization and leadership. In the absence of such leadership, the military will continue to assume the responsibilities of governing with varying degrees of effectiveness. Argentina, Brazil, and Chile will probably undergo continuing political instability. In addition the prospects for stability are not good in Colombia, Cuba, and Ecuador. The prospects are best in the most politically advanced countries such as Mexico and Uruguay, and in the countries with strong military dictatorships, such as Venezuela, Peru, and the Dominican Republic. Both moderation and stability of government in Guatemala and Bolivia will depend upon continuation of close ties with the United States.

56. In the long run, at least temporary reversion to radical solutions for meeting national problems is probable in some cases. As long as the economic position of the working class continues to stagnate, labor will be easily aroused by future demagogues. An urgent sense of nationalism will also continue to be

³ Brazil, Cuba, Colombia, Chile, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Nicaragua, Peru, and Uruguay.

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available for political exploitation. Meanwhile, with the bankruptcy of civilian rule, the present military leadership can provide no more than a braking action to extremist influences.

57. Latin American governments will continue to face the difficulties and problems of an economy in transition from dependence on raw material exports to a greater degree of self-sufficiency through economic development and diversification. They will probably increase production for export in an effort to regain economic momentum, but they will not abandon industrialization as a goal of economic planning. Their ability to reduce present imbalances may be improved somewhat by foreign aid and investment, but fundamental solution of their problems will depend upon the adoption of more realistic fiscal and development policies. The execution of sound economic policies will be most difficult in those countries like Argentina, Brazil, and Chile which combine strong social pressures with political instability, and least difficult in countries like Peru and Venezuela which have more immature societies, simpler economies, and strong military governments. The climate for foreign investors will probably undergo gradual improvement.

58. Communist strategy is likely to continue to develop within the "national liberation front" program and probably will not be basically affected by the Soviet emphasis on "peaceful coexistence." Communist efforts in the area will almost certainly continue to depict the United States as the barrier to Latin American progress and world peace. At the same time the Communists are likely to make use of, and to benefit from any relaxation of East-West tensions by pressing for legalization of their political organization and by expanding their propaganda in support of "peaceful coexistence." In this more favorable climate they will probably improve their capabilities for overcoming some existing barriers to collaboration with non-Communist groups. However, they will almost certainly be unable to gain a dominant influence in the national politics like that enjoyed in Guatemala prior to the overthrow of Arbenz in 1954.

Prospects for the Communists to increase their influence are probably best in Brazil and Chile.

Cooperation with the US in a Situation Short of General War

59. As long as the trend toward more moderate governments holds for Latin America, disturbances in the climate of US-Latin American relations, such as those provided by Peron and the Communist-oriented Arbenz government, are unlikely. Political cooperation in the UN and OAS is likely to be as close as in the recent past.

60. Latin America will probably continue to assume positions usually opposed to that of the US in both the OAS and UN on matters of "colonialism" and aid to underdeveloped areas. The tendency in Latin America to place responsibility for its economic development upon the United States is likely to continue. Issues such as export price stabilization, lower US tariffs, elimination of US import quotas, and US financing of large-scale development projects will almost certainly be raised again at the proposed Inter-American economic conference to be held in Buenos Aires sometime during 1956.

61. Latin America will almost certainly continue to seek US assistance to maintain and gradually improve its military capabilities. However, continued expansion of military cooperation will depend upon a satisfactory solution of Latin America's problems with respect to purchasing US equipment.

Cooperation in the Event of General War⁴

62. In the event of general war, the Latin American armed forces would not be able to defend critical areas and sea communications against serious enemy attack without the direct participation of US forces, although they would be of value in supporting roles. Latin American governments would generally agree to an expansion of their ground forces, but would require US assistance in the pro-

⁴This discussion does not take into account the possible psychological effects of nuclear warfare.

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vision of equipment and training and would seek to impose as much of the increased expense as possible on the United States. Expanded Latin American forces, US equipped and trained, could eventually assume major responsibility for the defense of continental areas. It is unlikely, however, that Latin American air and naval forces could ever relieve the US of the major responsibility for air and naval defense. Furthermore, it is doubtful that any significant Latin American force would be available for operations outside of the Western Hemisphere.

63. After the outbreak of general war the United States could probably obtain anywhere in Latin America the air and naval facilities necessary for US participation in the defense of strategic areas and sea routes, including consent for the stationing of air and naval forces at such installations. There would, however, be great reluctance, to the point of possible refusal in some cases, to permit the

entry of US ground forces unless large-scale invasion appeared imminent. Latin American governments would be even more unwilling to admit to their territories the forces of other Latin American states.

64. In circumstances of general war it is probable that all Latin American governments would agree to suppress existing overt Communist organizations and would have the capacity to do so. The greatest danger from Communists in Latin America in time of general war would be that of sabotage directed against the production and transportation of strategic materials. Although it is unlikely that a large-scale program of sabotage could be sustained throughout the area, the dispersion and vulnerability of key targets, especially in essential transportation systems, and the general inadequacy of police and security forces, would favor sporadic successes, especially in the period immediately following the outbreak of war.

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ECONOMIC APPENDICES

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APPENDIX A

ARGENTINA

1. Argentina has the highest level of living in Latin America. Agriculture is the chief source of wealth, providing the major field of employment and 90 to 95 percent of exports. Together with Mexico and Brazil, Argentina stands foremost with respect to technical progress and the development of its fiscal, banking, and commercial institutions.

2. Peron's rapid industrialization program of the past decade merely accelerated a trend that had begun a generation earlier. By liquidating domestic and international reserves accumulated from agriculture and by large-scale government borrowing, Peron was able to make industrial advances and maintain an annual average growth rate in real national product of 4.5 percent between 1945 and 1951. However, his overemphasis on industrialization exacted a heavy toll on agricultural production. This resulted in a sharp decline in export earnings, which was further aggravated by declining export prices after 1948 and brought to the crisis stage by the crop failure of 1951/1952. This necessitated sharp limitation of imports and a halt in the wage appeasement of labor. Such austerity controls countered inflation and good crops in 1952/1953 enabled output to rise somewhat, but real national product between 1951 and 1954 actually declined by an average of 0.3 percent annually. During the same period real per capita GNP declined by an estimated annual average of 3.6 percent. Investment dropped from 20 percent of GNP in the 1948-1951 period to about 13 percent in 1954.

3. The new Argentine government faces both short and long-range problems in restoring production and investment levels. Areas planted in major crops are only three-fourths of prewar acreages. Transportation and power services are already insufficient to maintain output in either agriculture or industry. The balance of payments problem inherited from the Peron regime promises to produce a trade deficit of \$200 million for

1955. In addition, the country also has gross external obligations of about \$500 million incurred under bilateral trading arrangements, export-import bank credits, mid-term commercial credits, and official loans. International reserves for meeting these liabilities total \$450 million. In addition, the Central Bank may be able to recover \$150 million in foreign exchange previously loaned by it to private banks.

4. The new government's program for coping with accumulated economic difficulties is designed to encourage agriculture and to stimulate foreign private investment. It has devalued the peso in order to expand agrarian exports. It anticipates that the resulting increased income will enable producers to rebuild savings and expand plantings. The government will keep for its own use 25 percent of the export revenues. These funds will be used to arrange a gradual adjustment between external and internal prices and may be used to reduce the anticipated balance of payments deficit and to bolster the free exchange market. Although the new government apparently intends to continue the state monopoly on petroleum development, its proposal to establish a free exchange rate to cover inflow and outflow of capital is designed to attract some new foreign private investment. Together with announced government intent to cease official intervention in the economy, the devalued free rate may also provide added incentive to already established foreign capital to reinvest earnings.

5. The burden of the government's new economic policy will apparently fall heaviest on hitherto favored urban labor. Although prices will rise as a result of devaluation, the government plan is to resist wage increases and offset inflationary pressures by increased production and savings. This course of action will put the administration to a severe test, particularly in the next six months, during which collective wage agreements come up for

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renewal. The government's success or failure will be a measure not only of its own capabilities for economic and political stability, but also of the feasibility of undertaking economically desirable steps in a politically volatile situation.

6. Argentina's economic ties with the US stem mainly from some \$425 million of direct private US investment. Because of the essentially competitive nature of US and Argentine exports, it has been difficult to expand trade. (The US accounts for only 14 percent of Argentina's total trade.) Argentine imports of

desired US-manufactured goods have been limited by dollar shortages, aggravated by rising requirements for imported oil, and by the limited convertibility of sterling. (The United Kingdom, which absorbs 18 percent of total exports but supplies only seven percent of imports, is able to limit, under its bilateral trade agreement with Argentina, purchases of oil by Argentina in the sterling area.) Argentina will probably continue to search for alternative markets and sources of supply, including those provided by the Soviet Bloc which accounted for eight percent of total trade in 1954.

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APPENDIX B

BOLIVIA

1. Bolivia is one of the most economically retarded countries in Latin America. Its economic growth is hampered by formidable obstacles to communication; low levels of literacy, health, and living conditions; lack of investment capital; and Indian resistance to change. At least two-thirds of the population is engaged in agriculture, and most farming is on a subsistence level. Since the small amount of commercial agriculture is increasingly inadequate to meet the needs of the nonagricultural population; and since the only developed industries are mining and petroleum, Bolivia must import almost half its food requirements and nearly all its manufactured goods.

2. Since 1952 Bolivia has been passing through a major economic and social revolution. The Paz Estenssoro administration has launched an ambitious long-range program to expand and diversify the economy, largely by increased production of foodstuffs and consumer goods. It hopes thereby to lessen Bolivia's need for imports and consequent dependence on fluctuating exports of tin. The government is stressing development of agricultural, forest, and petroleum resources in the lowlands and the Amazon basin. It is attempting to develop commercial agriculture in place of subsistence farming, to expand rail and highway facilities, and to encourage foreign investment.

3. However, the government has met serious difficulties in its economic stabilization and development efforts. Its hope that the revenues and assets gained from the nationalized tin mines would stabilize its fiscal position and ease foreign exchange shortages was nullified by the 50 percent decline in tin prices between April and August 1953. In addition Bolivia's tin, which normally supplied 70 percent of foreign exchange and 90 percent of government revenues, has become increasingly marginal in the world tin market partly because of the complexity and poor quality of most of the ores and partly because of rising production costs. As tin output declined, all

attempts to stabilize exchange failed. The country's official gold and foreign exchange reserves, \$24.5 million at the end of 1953, were completely exhausted by 1955. Concurrently, deficit financing along with governmental inefficiency and poor fiscal management intensified the most severe inflation in Latin America.

4. Nevertheless, principally because it was able to secure emergency US aid, the government has been able, at least temporarily, to stave off economic collapse and begin carrying out its plans for development and diversification. The US authorized grant aid in FY 1954 and FY 1955 amounting to \$33 million, three-fourths of which has been foodstuffs, principally US surplus agricultural stocks. In addition, the United States has for a number of years been supplying technical assistance to Bolivia (about \$2.6 million in 1955). This grant aid and technical assistance has already produced tangible results in increased food production and improved communications. The economic respite US aid gave to Bolivia also encouraged the government to moderate its policies, particularly with regard to economic nationalism. It also permitted the government to develop petroleum output adequate for national needs. In addition, the government has shown interest in attracting foreign petroleum investment.

5. The government will continue to need substantial US grant aid during the period of initial developmental efforts. As food production is increased and if the mining industry, which provides 95 percent of foreign exchange and an estimated half of government revenues, can maintain its present position as a source of current income, the need for such aid will probably decrease. However, any serious deterioration in the precarious economy would probably reverse the moderate and progressive direction in which Bolivia is currently moving. Bolivia's balance of payments deficit for 1955 is expected to be about \$28 million.

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APPENDIX C

BRAZIL

1. Brazil has the greatest economic potential of any country in Latin America. It has the land, mineral, and forest resources requisite for economic development. These factors, combined with a high rate of capital formation, have produced a marked degree of economic progress, particularly since World War II. In the period 1946-1954, GNP rose 64 percent and per capita output increased more than one-third. This rapid rise in the amount of goods and services available was due to relatively large-scale public and private investment,¹ improved terms of trade, and short-term borrowing abroad. Industrial development was encouraged by the maintenance of an overvalued exchange rate and quantitative restrictions on imports, which tended to favor internal expansion at the expense of external equilibrium. The industrial advance was so rapid that the industrial sector, which before the war was only half as important as agriculture, by 1951 equalled the agricultural sector's contribution to real GNP.

2. The national economy, however, still depends heavily upon agriculture. Brazil is the world's largest producer of coffee and bananas, ranks second in the production of cacao and citrus fruits, and is at least in fifth position in the production of sugar, tobacco, corn, cotton, cattle, and hogs. Exports of these products provide over 90 percent of Brazil's foreign exchange. During the period 1946-1954, crops for domestic consumption showed a steady rise in output (42 percent) while those for export fluctuated from year to year and over the entire period rose only 10 percent. The adverse effect which currency overvaluation had on the marketability of Brazil's crops was partially offset by rising

world prices until 1951, and during 1953-1954 by *de facto* devaluations and government subsidies to producers.

3. Nationalistic policies have continued to prevent foreign capital from developing Brazil's petroleum resources, despite the fact that domestic capital and technical knowledge have been inadequate to do an effective job. As a result, the country spends an amount equal to about 25 percent of its receipts from coffee exports for imports of petroleum. Furthermore, the rapid postwar economic development has strained existing transportation and power facilities, the inadequacies of which are the greatest obstacles to industrial and agricultural growth.

4. Overvaluation of the cruzeiro has exerted persistent and growing pressure on Brazil's ability to export and has encouraged a rising level of imports. During the past two years exchange policies aimed to achieve *de facto* devaluation have been ineffective largely because they were predicated on a continued high level of income from coffee — a condition which failed to materialize as Brazil priced itself out of a good share of the market when prices were high, and which disappeared as coffee prices declined in 1954-1955. Brazil was able to finance only 85 percent of its imports from foreign exchange earnings during the period 1951-1954. As a result its international reserves have been eroded and its borrowings abroad steadily increased. The trade deficit during the first half of 1955 reached \$49 million compared with \$19 million in the same period a year earlier.

5. Brazil's immediate economic problem is to find noninflationary incentives for continuing internal expansion while moving toward external equilibrium. This would involve the correction of inflationary pressures originating in budget deficits and the reduction of credit to the private sector of the economy. In addition it would require adoption of for-

¹ The ratio of gross investment to GNP was 16.5 percent in 1951 and 1952 but declined to 12.7 percent in 1954. Higher consumption and the financial austerity and credit restriction policies adopted by the Cafe Administration contributed to the discouragement of investment.

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eign trade policies designed to discourage imports beyond the country's ability to pay, and to encourage production for export. Devaluation and elimination of the cumbersome exchange rate system would probably help Brazil regain the share of the world coffee market lost to other suppliers during 1953-1954 because of overpricing.

6. While it does not appear likely that all the above policies will be adopted by the new Kubitschek administration, the latter will almost certainly seek stabilization and developmental aid from the US in order to avoid a material slow-down in the industrial sector of the economy. In spite of any reasonable amount of outside financial assistance which

may be forthcoming, Brazil's rate of economic growth in the next few years will probably not equal the rate of the recent past.

7. Brazil is strategically important to the US because of its location with respect to South Atlantic sea and air routes, and because of its sources of iron ore, manganese, quartz crystal, beryl ore, mica, industrial diamonds, monazite, and possibly uranium. It is economically important because it is a major area for US trade (\$1.1 billion in 1954) and private investment (over \$1 billion in 1954). Brazil also has been politically useful to the US by tempering extremist demands and proposals put forth by various countries at Inter-American conferences and in the United Nations.

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APPENDIX D

CHILE

1. Although the Chilean economy is dependent on mining for the bulk of its foreign trade and tax revenues, the nation's manpower is employed primarily in agriculture and, to a lesser extent, in a nascent industry. Chile's per capita GNP is fourth highest in Latin America, but its per capita domestic output, in contrast to the relatively rapid increase attained in most of the other countries in the area, has remained almost constant during the past decade. Gross domestic product has increased only at the same rate as that of the population (1.6 percent annually). Investment levels have been equally depressed, approximating only 12-14 percent of GNP at their highest level (1947-1949, when considerable foreign investment went into mining operations) and dropping to 10 percent in 1953.

2. Chile's slow rate of development is explained by weaknesses found in both external and internal sectors of the economy. During the past decade, although terms of trade have generally improved, export volume has tended to decline while imports have continued to increase under the pressure of industrial development, which had to be financed in large part by Eximbank and IBRD credits. Emphasis on industrial development has not only failed to yield goods and services commensurate with the investment made, but has diverted scarce resources from agriculture, the low productivity of which constitutes the major obstacle to Chile's economic progress. This lag in agricultural output, combined with deficit financing, liberal banking policies, and continued appeasement of wage demands from urban and mining labor groups, has contributed to the most severe and chronic inflation in all Latin America, excepting Bolivia. This inflationary trend has been such as to discourage rather than encourage domestic capital formation. Despite the high price of copper, which normally accounts for about two-thirds of Chile's foreign exchange earn-

ings and a substantial portion of its budgetary revenue, the nation's currency is steadily weakening. The cost of living is rising (56 percent between January and September 1955) and credit facilities are overloaded.

3. The Ibanez administration is attempting to forestall further deterioration in its financial position by temporizing on insistent wage demands and by continuing the taxes imposed on a temporary basis in 1954. It has not, however, shown a willingness to take a firm stand on wage or credit policies.

4. During 1956, the Chilean economy will probably benefit from a rise in exchange revenues from increased exports of copper, production of which is being expanded as a result of more favorable tax and exchange laws. Output for 1955 will exceed 400,000 tons, compared to 359,000 in 1954. Already programmed mining investment will bring an inflow of at least \$100 million during the next few years. In addition, an agricultural and transportation development program has been formulated, with FAO-IBRD assistance, calling for expenditure of \$300 million over an eight-year period.

5. Since developmental investment tends to be inflationary, improved financial controls will be needed to reap potential benefits. Chile has already invited a private US financial mission to make recommendations concerning correction of its financial problems. It remains to be seen whether the Ibanez government will prove more able and willing than in the past to act on such recommendations.

6. Chile has customarily looked to the US as its major market, source of supply, and provider of foreign capital, both public and private. In its present determination to exact maximum returns from copper, it has attempted in 1955 to sell two-thirds of its copper output to Europe, where prices have been higher than in the US. A general shift of

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trade is also encouraged by the existing exchange system which offers premium export rates on shipments to Europe. Although the US has lost out to European suppliers on exports to Chile of some consumer goods items, it has continued as the major supplier of cap-

ital goods. The economic nationalism which until recently characterized Chile's postwar relations with the US is now abating. Foreign capital is being generally welcomed, even into petroleum development, which was hitherto reserved for domestic capital.

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APPENDIX E

GUATEMALA

1. Guatemala is predominantly an agricultural economy which displays most of the standard characteristics of underdevelopment: low per capita GNP (\$181 in 1953); insufficient power and transportation facilities; high rate of illiteracy (70 percent); inadequate health and educational facilities; a shortage of skilled labor and investment funds; and an inefficient and cumbersome public administration. Subsistence agriculture occupies most of the population, which is more than one-half Indian. The money economy is based primarily on the production of coffee, which in 1954 accounted for 78 percent of the total value of exports. Attempts to diversify the economy, chiefly through tariff protection, tax exemption, and credit assistance, have been only mildly successful. Industry remains confined largely to the simple processing of agricultural products and the manufacture of consumer goods and construction materials.

2. In the immediate postwar period, the Guatemalan economy benefitted from a reorganization of the country's banking policies and institutions (completed in 1946), which provided for a single bank of issue, for flexible and diversified credit operations, for currency stabilization, and for protection of the domestic economy from external shocks. During the period 1946-1952, the economy was able to maintain a rate of real economic growth of 4.6 percent annually, largely because of sustained high levels of foreign trade income from coffee and sharply increased government expenditures made possible by substantial borrowings from the Central Bank.

3. After 1952, the Arbenz government's extremist, communist-influenced economic and social policies discouraged productivity and investment in agriculture and industry. During 1952 and 1953 international reserves dropped substantially both because of the de-

cline in world prices following the Korean War boom and because of the flight of private domestic capital. Per capita GNP dropped 5.3 percent during 1953. When the Castillo Armas administration took over the government in July 1954, it was confronted with a looted treasury, a sizable public debt, and a stagnation of business and agricultural activity. On top of these difficulties came the drop in world coffee prices in the fall of 1954, and a drought which reduced food production.

4. The new administration levied emergency taxes, sought and received financial and technological aid from the US, negotiated a loan of \$18.2 million with the IBRD to finance completion of highway projects, and let contracts to foreign firms for the construction of public works. It encouraged foreign private investment by signing an investment guarantee agreement with the US, by promulgating a new petroleum law, by repealing laws affecting remittance and taxation of earnings from foreign capital, and by settling the damage claims of the United Fruit Company.

5. By mid-1955 economic growth had been resumed in Guatemala. The availability of official foreign funds, which to date exceeds \$60 million, has permitted the government to maintain a relatively high level of investment and consumption. The creation of a favorable business climate has brought forth new investment, both foreign and domestic, so that industrial productivity has been increased under conditions of stable wholesale prices. In addition, the maintenance of a satisfactory volume of exports has brought Guatemala's foreign exchange reserves to the highest levels in its history.

6. There are social and political impediments to long-range economic development in Guatemala. The country faces a formidable task in bringing its Indian mass into the pattern

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of national production. Guatemalan nationalism is presently quiescent, but it is likely to increase in proportion to the government's economic and political difficulties. The need for agrarian reform and increased agricultural

production for domestic consumption remains. Also, the Guatemalan bureaucracy lacks the experience, skills, and impersonal civil service required for an effective role in economic planning and administration.

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APPENDIX F

MEXICO

1. Although Mexico is well known for its rich and varied mineral resources and has made notable progress in industrialization, 58 percent of the labor force remains engaged in agricultural, forestry and fishing pursuits, which together account for only 20 percent of national income (\$5 billion in 1954). Mexico's postwar economic growth is reflected in an annual 5 percent rise in GNP in the years 1945 to 1952 against an annual population rise of 2.8 percent. Although the growth slackened markedly in 1952 and 1953, the upward trend was resumed in 1954 when GNP increased by nearly 7 percent.

2. The postwar economic growth can be attributed largely to heavy investment. (Ratio of investment to GNP between 1945 and 1952 averaged 16 percent, 90 percent of which came from domestic sources.) This diversion into investment tended to keep down consumption, but the burden was unevenly shared. Profits, interest, and rents rose from 34 percent of national income in 1939 to 51 percent in 1952, while wages, salaries, and income of small entrepreneurs declined from 66 percent to 49 percent.

3. The principal impediment to continued growth of Mexican industry, whose output is expanding at 7.5 percent annually, is the low purchasing power of the agricultural population. Government efforts to raise buying power by encouraging wage increases and controlling prices have had only limited success. Increased agricultural production is hindered by extreme parcelization of cultivated areas and by inadequate rainfall on 80 percent of the tillable land. Although economic resources dedicated to irrigation and reclamation have appreciably expanded the sown area, only about five percent of the total land area is now under cultivation.

4. Government investment activities, which during the 1939-1950 period represented 40 percent of total domestic investment, have provided a vital stimulus to Mexico's economic

expansion and are important to the maintenance of economic growth. An attempt by the Ruiz Cortines administration to retrench on government investment in 1952 and 1953 was immediately reflected in a general slowing down of economic activity, and the government was forced to resume spending. Government financing of development has, however, been a strong inflationary influence. Public deficits together with lagging agricultural output have led to currency depreciation and has forced the government to devalue the peso three times in the last 15 years in order to correct price and marketing problems.

5. Although Mexico's development was largely financed from domestic sources up to 1950, in recent years the country has sought foreign funds on an increasing scale. The country has received sizable official loans from IBRD and Eximbank for such purposes as rehabilitation of railroads and electrification. It has also obtained \$220 million in foreign private capital, chiefly from the US, in the postwar period. The climate for foreign investors has been improving and foreign companies may now engage in virtually any industry, except petroleum and lumber. Mexican industrialists have generally welcomed foreign private investors and have participated with them in the organization of many new industries.

6. Mexico's balance of payments position improved considerably following the April 1954 devaluation. A sizable reduction has been made in the chronic excess of imports over exports, and this improvement in trade has been accompanied by a sizable capital inflow. Mexico continues to show a trend toward greater diversification of exports. Its previously lagging mineral industry has been reactivated and sulphur production is being developed. The production of export agricultural crops has been increasing. This favorable outlook has, however, been beclouded by the severe hurricane and flood damage in 1955. Corn

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and bean crops may have been so damaged as to require additional food imports which could change the favorable balance of payments situation and also slow down development of the country by diverting foreign exchange from the importation of producers' goods. In addition, the federal grants necessary for the rehabilitation of devastated areas may adversely affect the government's fiscal position and create an inflationary trend difficult to control.

7. Mexico's ability to continue development at rates registered in recent years will depend in large measure on the ability of the government to curb excessive inflationary pressures. An increase in already heavy investment requirements will be necessary to meet the higher standard-of-living demands of the rapidly

growing population. The problem will be to find funds to satisfy these investment needs while avoiding extreme inflation.

8. Mexico's economic development is creating a widening group within the country aware of its community of interests with the United States. The need for continued inflow of foreign capital, the \$300 million annual tourist business, the operation of the *bracero* (migratory labor) agreements, and the close trade ties (US accounts for three-fourths of Mexico's total trade) have helped minimize psychological barriers which created difficulties in the past. Although Mexican nationalist sentiment continues to be strong, it will almost certainly remain quiescent with respect to US-Mexican relations in the foreseeable future.

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APPENDIX G

VENEZUELA

1. Though more than 50 percent of Venezuela's population is engaged in agriculture, the oil industry holds the key position in the national economy. Petroleum accounts for 95 percent of exports, 97 percent of foreign exchange, and more than 60 percent of government revenue. The foreign owned industry, which employs less than 5 percent of the Venezuelan labor force, contributes in wages and salaries 10 percent of the total national income, and economic activities stimulated by the industry are estimated to account for nearly one-fourth of the GNP. Venezuela accounts for nearly 14 percent of the world's oil production. It is the second largest producer in the world and the world's leading exporter.

2. The rising world demand for petroleum exports since World War II has placed Venezuela in a unique position among Latin American nations. It has permitted a rapidly rising national income (annual per capita average of seven percent), an increasingly high level of imports without balance of payments difficulties, and a financing of domestic development out of domestic financial resources. It has also made Venezuela's per capita GNP the highest in Latin America and permitted the government to operate on the highest per capita budget in the area.

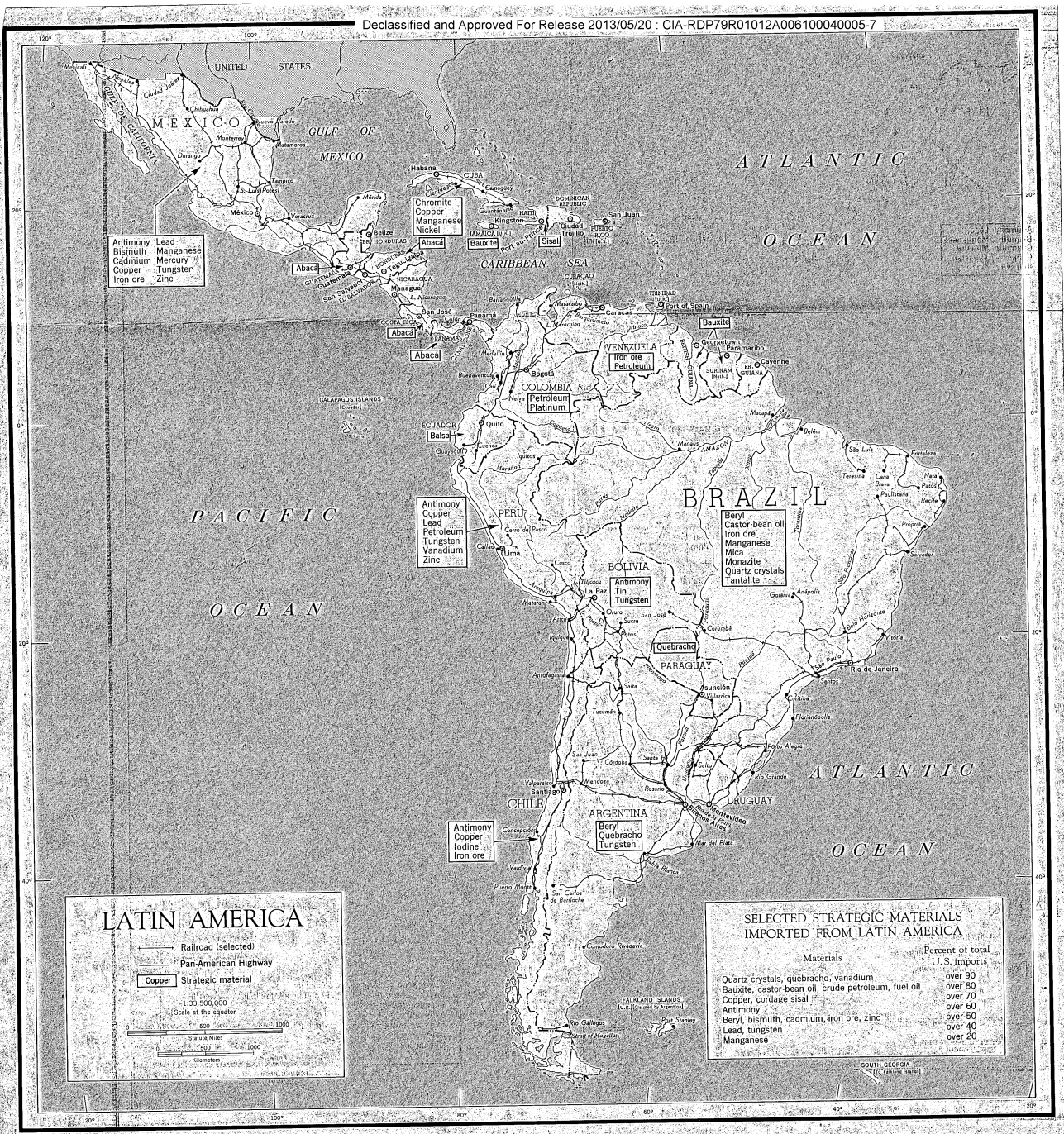
3. The utilization of petroleum to accelerate the growth of other sectors of the economy has long been the avowed aim of the Venezuelan authorities. Although capital expenditures by the government have accounted for over a third of the national budget and public investment has represented 50 percent of total capital investment, the growth in consumer goods production had barely kept pace with the population growth up to 1952. Since the latter year, however, there has been some evidence that domestic products are providing

a larger share of Venezuela's requirements of manufactured goods and agricultural products.

4. The Venezuelan economy remains vulnerable, however, because of its extreme dependence upon petroleum exports. Possibilities for diversification are limited. Iron ore exploitation cannot provide a sizable foreign exchange inflow in the near future. The production of coffee, the most important agricultural export, has been declining. Food production has not expanded as rapidly as population. Import requirements for both capital goods and food are heavy.

5. Venezuela's economic situation for some time to come can be expected to reflect the status of the market for its petroleum. Especially because Venezuelan oil is confronted with increasing competition from Middle East oil in the European market, the maintenance of the US market is vital to Venezuela's economic growth. A reduced flow of oil into the US would immediately cut the Venezuelan government's spending ability. Its cooperation with the United States, therefore, is likely to be determined by Venezuela's share in the US petroleum market.

6. Venezuela has long provided a favorable environment for private investment. Government encouragement of private enterprise in the form of minimum prices, subsidies, protectionist tariffs, and low income taxes has attracted foreign capital into fields other than petroleum. Local capital has not opposed the entry of foreign capital into domestic industry and has participated with foreign capital in the development of new industries. The only significant expressions of economic nationalism, thus far, have been the decisions by the government to pre-empt to itself the development of the steel manufacturing and the petro-chemical industries.



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